



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**INDEPENDENT AUDITORS REPORT ON THE
TRIBAL AND OTHER TRUST FUNDS AND
INDIVIDUAL INDIAN MONIES TRUST FUNDS
FINANCIAL STATEMENTS FOR FISCAL
YEARS 2003 AND 2002 MANAGED BY THE
OFFICE OF THE SPECIAL TRUSTEE FOR
AMERICAN INDIANS**

**REPORT NO. Q-IN-OST-0075-2003
DECEMBER 2003**

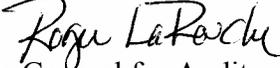


United States Department of the Interior
Office of Inspector General
Washington, D.C. 20240

December 9, 2003

Memorandum

To: Special Trustee for American Indians
Office of the Special Trustee for American Indians

From: Roger La Rouche 
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Tribal and Other Trust Funds and Individual Indian Monies Trust Funds Financial Statements for Fiscal Years 2003 and 2002 Managed by the Office of the Special Trustee for American Indians. (Report No. Q-IN-OST-0075-2003).

The Office of the Special Trustee for American Indians (OST) contracted with KPMG LLP, (KPMG) an independent certified public accounting firm, to audit the OST's financial statements as of September 30, 2003, and for the year then ended. The OST's financial report contains separate financial statements and notes for Tribal and Other Trust Funds and Individual Indian Monies Trust Funds. The contract required that KPMG conduct its audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

In its Independent Auditor's Report dated November 14, 2003, (Attachment 1) KPMG issued a qualified opinion on OST's financial statements because inadequacies in certain Department of the Interior trust related systems and processes made it impracticable to extend auditing procedures sufficiently to satisfy auditors as to the fairness of trust fund balances, certain parties for whom OST holds monetary assets in trust do not agree with balances recorded by OST, and certain of these parties have filed, or are expected to file, claims against the United States Federal Government. KPMG identified three reportable conditions related to internal controls over financial reporting: (1) reliance by OST on processing of trust transactions at the Bureau of Indian Affairs; (2) unresolved financial reporting issues from current and prior periods; and (3) internal controls over information technology systems. KPMG considers the first two reportable conditions to be material weaknesses. With regard to tests of compliance with laws and regulations described in the Responsibilities section of the report, KPMG found no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In its response, which was incorporated into the report, OST concurred with the report's findings and recommendations and indicated that corrective actions would be taken. We

consider the recommendations resolved but not implemented. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

KPMG is responsible for the auditors' report and for the conclusions expressed in the report. We do not express opinions on OST's financial statements, conclusions on the effectiveness of internal control, or conclusions on compliance with laws and regulations.

The legislation, as amended, creating the Office of Inspector General, (5 U.S.C.A. App. 3) requires semiannual reporting to Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report.

We appreciate the cooperation and assistance of OST personnel during the audit. If you have any questions, please contact me at (202) 208-4252.

Attachment



**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS AND
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

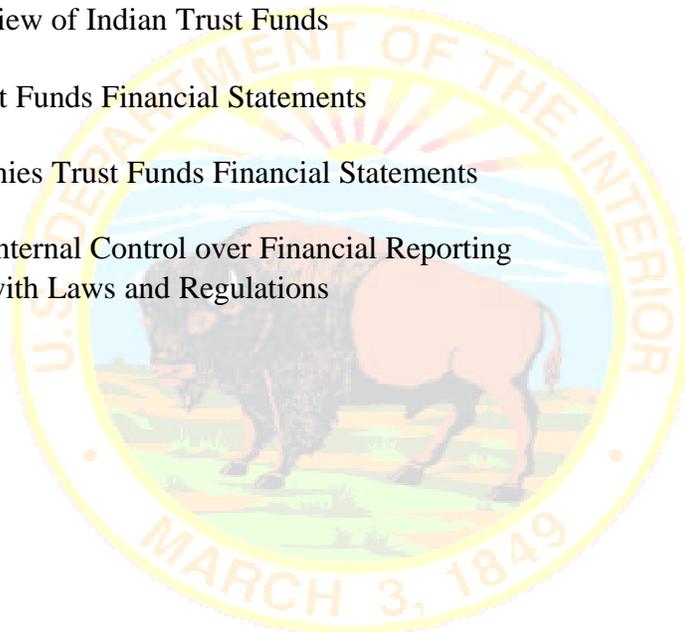


ANNUAL REPORT 2003

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS AND
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

Table of Contents

	Tab
Management's Overview of Indian Trust Funds	1
Tribal and Other Trust Funds Financial Statements	2
Individual Indian Monies Trust Funds Financial Statements	3
Auditors' Report on Internal Control over Financial Reporting and Compliance with Laws and Regulations	4



INDIAN TRUST FUNDS

Department of the Interior and Comprehensive Trust Management Mission Statements

- To perform our fiduciary trust responsibilities to American Indian tribes, individual Indians, and Alaska Natives by incorporating a beneficiary focus and beneficiary participation while providing effective, competent stewardship and management of trust assets.

HISTORICAL PERSPECTIVE

The Secretary of the Interior (Secretary) manages the Tribal Trust Funds, Other Trust Funds, and Individual Indian Monies Trust Funds in recognition of the unique trust relationship that exists between the Indian tribes, individual Indians and the United States Government (Government). Agreements between the Government and various Indian tribes, many in the form of treaties, recognize the sovereignty of tribes. During the course of the Nation's history and the Government's evolving policies toward Indian tribes and individual Indians, the trust relationship retained characteristics based upon tribal sovereignty.

DESIGNATED TRUSTEE

The United States Congress has designated the Secretary as the primary fiduciary with responsibility for the monetary and nonmonetary resources held in trust on behalf of American Indian tribes, individual Indians, and other trust funds. In carrying out the management and oversight of Indian trust assets, the Secretary has a fiduciary responsibility to ensure all monies are received for use of Indian lands and extraction of natural resources from Indian lands, disburse such monies collected to the appropriate beneficiaries, ensure that trust accounts are properly maintained and invested, and ensure that accurate and complete reports are provided to trust beneficiaries in accordance with applicable law.

TRUST FUNDS

The balances that have accumulated in the trust funds have resulted generally from judgment awards, settlement of claims, land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, and investment income. Many of the tribal and other trust funds are managed based on Congressional acts or particular bequests establishing the funds. For Government budget purposes, the tribal trust funds are reported in two trust fund balance categories: *Held for Indian tribes* and *Held by the Department of the Interior*. The first category represents funds which are considered nonfederal monies held on behalf of Indian tribes. The second category represents funds which are considered Federal monies, some of which will be transferred to the *Held for Indian tribes* category provided certain conditions are satisfied, and for others the corpus of the fund may be nonexpendable. The Individual Indian Monies trust funds are a deposit fund for individuals who have a beneficial interest. The management of the trust funds and related trust assets are performed by various offices within the U.S. Department of the Interior (DOI).

SPECIAL TRUSTEE

Pursuant to authority provided by The American Indian Trust Fund Management Reform Act of 1994 (P.L. 103-412) (Reform Act), Secretarial Order 3197 and its incorporation into the Department Manual established the Office of the Special Trustee for American Indians (OST) and delegated all program and administrative authority necessary to carry out the responsibilities of OST to the Special Trustee for American Indians (Special Trustee). The Office of Trust Funds Management (OTFM) was transferred intact from the Bureau of Indian Affairs (BIA) to OST, resulting in the transfer of certain financial trust service employees in region and field offices located throughout the U.S. from BIA to OST.

The Special Trustee reports to the Secretary and pursuant to the Reform Act is responsible for oversight of DOI reform and coordination efforts of all activities involving policies, procedures, systems, and practices used in

managing Indian trust assets by various agencies and offices within DOI, including but not limited to OST, BIA, Minerals Management Service (MMS), and the Bureau of Land Management (BLM).

FIDUCIARY TRUST ASSETS AND TRUST FUNDS MANAGEMENT

Indian trust funds are managed, under delegated authority, by OST. The management of the Indian fiduciary trust assets that produce those funds is a process that is dependent upon the processing of trust-related transactions by the accounting systems of DOI, including but not limited to OST, BIA, MMS, and certain other DOI agencies. The BIA, MMS, and other DOI agencies are responsible for managing the trust resources located within the boundaries of Indian reservations and trust lands as well as for the processing of data regarding the ownership and leasing of Indian lands. OST is responsible for the management of trust funds on behalf of the trust beneficiaries and is significantly dependent and reliant upon the receipt of timely and accurate information derived from records maintained by BIA and other DOI agencies.

DOI maintains staff through a network of regional, agency and field offices located throughout the United States. The regional offices provide administrative and operational support for their respective agency and field offices strategically located near the tribes and individuals served.

ORGANIZATION OF OST

OST oversees reforms necessary to ensure the fulfillment of DOI fiduciary trust responsibilities to American Indians and Alaska Natives. The Special Trustee manages and directs the staff within OST with the assistance of a Principal Deputy Special Trustee. The Principal Deputy Special Trustee acts in the absence of the Special Trustee and discharges the responsibilities of the office. Most major offices and organizations within OST - - including the Chief Information Officer, the Deputy Special Trustee for Trust Accountability, the Deputy Special Trustee for Trust Services and the Deputy Special Trustee for Field Operations - - report through the Principal Deputy Special Trustee to the Special Trustee. The Office of Trust Review and Audit reports directly to the Special Trustee.

OST personnel are also located at the various Agency and Field locations and offices and perform the delegated functions related to trust funds management.

TRUST REFORM

DOI is committed to fulfilling its fiduciary trust responsibilities to American Indians and Alaska Natives effectively and efficiently. It also is committed to providing excellent service to the beneficiaries of that trust. To fulfill its trust responsibilities effectively and efficiently, DOI developed the Comprehensive Trust Management Plan (CTM) dated March 2003, an overall strategic plan which provides trust reform efforts. The CTM defines and describes the vision, goals, and objectives of trust reform, and an improved management of the trust program.

The CTM was developed around six major goals, as follows:

1. Beneficiary Services
2. Ownership Information
3. Land and Natural Resource Assets
4. Trust Fund Assets
5. Indian Self-Governance and Self-Determination
6. Administrative Services

The objectives of the CTM are to be accomplished through the development and implementation of standardized trust business processes. A three-stage approach to standardizing these processes is designed to i) identify existing business process (As-Is), ii) determine which of those processes should remain or be reengineered (To-Be), and iii) develop the universal support functions cross-cutting the baseline business model.

The As-Is Trust Business Model was issued March 21, 2003 and provides the basis for current re-engineering efforts.

Strategic plans are dynamic. Thus, DOI will regularly evaluate and update this plan to ensure its responsiveness to the ongoing needs of trust operations and to adapt to changing environments.

FINANCIAL STATEMENTS AND ANNUAL AUDITS

Since 1995, OTFM has contracted for an independent audit of the financial statements of the trust funds it manages for the benefit of individual Indians, tribes, and others. The 1995 audit covered the statement of assets and trust fund balances, internal controls, and compliance with laws and regulations. Audits for fiscal years 1996 through 2002 also included the statement of changes in trust fund balances.

The Office of Inspector General oversees the audits and reviews the resulting reports prior to their release to the public. Certain information in the financial statements of the trust funds is incorporated into DOI consolidated financial statements.

The annual audits of the trust funds' financial statements meet the audit requirement of the Reform Act.



**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS**

Financial Statements

September 30, 2003 and 2002

(With Independent Auditors' Report Thereon)



6565 Americas Parkway NE, #700
Post Office Box 3990
Albuquerque, NM 87190

Independent Auditors' Report

The Special Trustee for American Indians
U.S. Department of the Interior Office of the Special Trustee for American Indians:

We have audited the accompanying statements of assets and trust fund balances of the Tribal and Other Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians (OST) and the related statements of changes in trust fund balances as of September 30, 2003 and 2002 and for the years then ended. These financial statements are the responsibility of management of OST. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the fourth paragraph of this report, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 2, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

It was not practicable to extend our auditing procedures sufficiently to satisfy ourselves as to the fairness of trust fund balances in the accompanying financial statements as of September 30, 2003 and 2002 due to inadequacies in certain Department of the Interior trust-related systems and processes. Trust fund balances enter into the determination of financial position and changes in trust fund balances. Certain parties for whom OST holds monetary assets in trust do not agree with balances recorded by OST, and certain of these parties have filed, or are expected to file, claims against the United States Federal Government.

In our opinion, except for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to apply adequate procedures to determine the fairness of trust fund balances and related changes in trust fund balances, as discussed in the preceding paragraph, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Tribal and Other Trust Funds managed by OST as of September 30, 2003 and 2002 and the changes in trust fund balances for the years then ended in conformity with the basis of accounting described in note 2.



In accordance with *Government Auditing Standards*, we have also issued a separate report dated November 14, 2003, on our consideration of internal control over financial reporting and compliance with certain provisions of laws and regulations of the Tribal and Other Trust Funds managed by OST. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

KPMG LLP

November 14, 2003

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS**

Statements of Assets and Trust Fund Balances – Cash Basis

September 30, 2003 and 2002

(in thousands)

Assets	2003	2002
Cash and cash equivalents (note 3)	\$ 507,578	723,702
Investments (note 4)	2,372,434	2,132,587
Total assets	\$ 2,880,012	2,856,289
Trust Fund Balances		
Held for Indian tribes (notes 6 and 8)	\$ 2,624,471	2,633,118
Held by the Department of the Interior and considered to be U.S. Government funds (note 6)	255,541	223,171
Total trust fund balances	\$ 2,880,012	2,856,289

See accompanying notes to financial statements.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS**

Statements of Changes in Trust Fund Balances – Cash Basis

Years ended September 30, 2003 and 2002

(in thousands)

	2003	2002
Increases:		
Receipts	\$ 256,168	293,785
Interest received on invested funds	118,010	139,249
Gain on disposition of investments, net	4,291	1,690
	378,469	434,724
Decreases:		
Disbursements to and on behalf of Indian tribes and other trust funds and withdrawal of trust funds by Indian tribes (note 8)	(354,746)	(383,452)
Increase in trust fund balances, net	23,723	51,272
Trust fund balances, beginning of year	2,856,289	2,805,017
Trust fund balances, end of year (notes 6 and 8)	\$ 2,880,012	2,856,289

See accompanying notes to financial statements.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS**

Notes to Financial Statements

September 30, 2003 and 2002

(1) Background and Description of the Trust Funds

(a) Overview of the Trust Funds

Establishment and Management of the Trust Funds – The legislation which authorizes the Secretary of the United States Department of the Interior (Secretary) to manage the Tribal and Other Trust Funds (Trust Funds) recognizes the unique trust relationship that exists between the Indian tribes, individual Indians, and the United States Federal Government (Federal Government). Agreements between the Federal Government and the various Indian tribes, many of these in the form of treaties, recognize the sovereignty of tribes. During the course of the Nation’s history and the Federal Government’s evolving policies toward Indian tribes, the trust relationship has retained characteristics based upon tribal sovereignty. The United States Congress has designated the Secretary as the primary fiduciary with responsibility for the monetary and nonmonetary resources held in trust on behalf of American Indian tribes, individual Indians, and other trust funds. In carrying out the management and oversight of the Indian trust assets, the Secretary has a fiduciary responsibility to ensure all monies are received for the use of Indian lands and the extraction of natural resources from Indian lands, disburse such monies collected to the appropriate beneficiaries, ensure that trust accounts are properly maintained and invested, and ensure that accurate and complete reports are provided to the trust beneficiaries in accordance with applicable law.

The balances that have accumulated in the Trust Funds have resulted generally from judgment awards, settlement of claims, land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, and investment income.

The accompanying financial statements include only the monetary balances held in trust by the Office of the Special Trustee for American Indians (OST) for trust beneficiaries and do not include (i) the operating account balances of OST (e.g., Fund Balance with Treasury, Property, Plant, and Equipment) or (ii) other Indian trust assets, including but not limited to, Indian lands, buildings, or other nonmonetary assets managed by the United States Department of the Interior (Department).

The Reform Act – The American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412) (the Reform Act) authorized the establishment of OST which is headed by the Special Trustee for American Indians (Special Trustee) who reports to the Secretary. Under this legislation, the Special Trustee is responsible for oversight, reform and coordination of the policies, procedures, systems and practices used by various agencies of the Department, including but not limited to, the Bureau of Indian Affairs (BIA), the Minerals Management Service (MMS), and the Bureau of Land Management (BLM), in managing Indian trust assets.

Prior to February 1996, the Secretary delegated authority for the management of the Trust Funds, including accounting and financial reporting, to the Office of the Assistant Secretary – Indian Affairs, who carried out the management of the Trust Funds through BIA. On February 9, 1996, in accordance with the authority provided by the Reform Act, Secretarial Order 3197, the provisions of which were subsequently incorporated into the Departmental Manual, established OST and delegated all program and administrative authority necessary to carry out the responsibilities of OST to the Special Trustee. In addition, the Office of Trust Funds Management (OTFM) was transferred intact

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS**

Notes to Financial Statements

September 30, 2003 and 2002

from BIA to OST, and certain trust service employees in field offices located throughout the United States (U.S.) were also transferred from BIA to OST and OTFM.

2003 Reorganization – A reorganization of the Office of the Assistant Secretary – Indian Affairs, BIA, and OST, became effective on April 21, 2003. Among the changes of the reorganization, responsibilities and authorities were updated, new positions were created, and new organizational charts for the Office of the Assistant Secretary – Indian Affairs, BIA, and OST were created. The 2003 reorganization impacted the organizational structure of OTFM whereas certain divisions and positions previously under OTFM were transferred into other program functions within OST. The transfer to OST included such functions as policies and procedures, reporting and reconciliation, information technology systems, and field operations.

Office of the Special Trustee for American Indians – Indian trust assets, including the Trust Funds, are primarily managed under the delegated authority of OST and BIA. Management of Indian trust assets on behalf of the trust beneficiaries is a process that is dependent upon the processing of trust-related transactions within the accounting systems of the Department, including but not limited to, BIA, MMS, and certain other Departmental agencies. BIA, MMS, and other Departmental agencies are responsible for managing the natural resources located within the boundaries of Indian reservations and trust lands as well as the processing of data regarding the ownership and leasing of Indian lands. The allocation and distribution of receipts and disbursements by OST to trust beneficiaries is significantly dependent and reliant upon the receipt of timely and accurate information derived from records maintained by BIA, MMS, and other Departmental agencies (see note 7).

Regional Offices – OST and BIA maintain regional offices located throughout the U.S., which provide administrative and operational support for their respective agency and field offices.

Agency and Field Offices – OST and BIA maintain agency and field offices located throughout the U.S., which are generally located near the tribes and individual Indians served. OST and BIA personnel located at most of the agency offices perform various functions related to trust fund activities. Each of the agency and field offices are organized under one of the regional offices.

(b) Description of the Trust Funds

Certain of the Trust Funds are subject to legal, regulatory, budgetary, court-ordered, or other restrictions (see note 6). A brief description of the Trust Funds follows:

- **Tribal Trust Funds** – Approximately 1,400 accounts comprise the Tribal Trust Funds, which totaled approximately \$2,624,471,000 and \$2,633,118,000 as of September 30, 2003 and 2002, respectively.

Tribal Trust Funds realize receipts from a variety of sources, including judgment awards, settlement of claims, land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, and investment income.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS**

Notes to Financial Statements

September 30, 2003 and 2002

- **Other Trust Funds** – Other Trust Funds are comprised of those funds classified as *Held by the Department of the Interior and considered to be U.S. Government funds* (see note 6). Other Trust Funds totaled approximately \$255,541,000 and \$223,171,000 as of September 30, 2003 and 2002, respectively.

Other Trust Funds realize receipts from a variety of sources including leases, rights of way, settlement of Indian claims, donations and bequests, and investment income.

(c) Investment of Trust Funds

Authorizing legislation and a substantial body of case law specify how Indian trust funds should be managed and which financial instruments constitute appropriate investments for Indian trust funds. The Trust Funds are invested in Federal Government securities, including U.S. Department of the Treasury (U.S. Treasury) issues, Federal Government agency issues, and Federal Government-sponsored entity issues.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

OST uses the cash basis of accounting for the Trust Funds, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The cash basis of accounting differs from accounting principles generally accepted in the United States of America in that receivables and payables are not recorded and premiums and discounts are not amortized or accreted. Receipts are recorded when received and disbursements are recorded when paid. Investments are stated at historical cost. Interest received on invested funds reported in the statements of changes in trust fund balances reflects interest received during the fiscal year.

(b) Cash and Cash Equivalents

Management considers all highly liquid financial instruments with maturities of three months or less when purchased to be cash equivalents.

(c) Investments

Investment securities at September 30, 2003 and 2002 consist of U.S. Treasury issues, Federal Government agency issues, and Federal Government-sponsored entity issues. Investment securities are recorded at historical cost. Interest income is recognized when received.

The Trust Funds' investments have a concentration of credit risk in Federal Government securities as mandated by 25 USC 162.

(d) Receipts

Receipts from various leasing activities, mineral royalties and sales of extracted minerals, timber and forest products, fees and fines, and the granting of easements are generated from a variety of nonmonetary assets that are held in trust by the Federal Government and managed by BIA and other Departmental agencies on behalf of tribes. Receipts on hand at the regional and agency offices at

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS**

Notes to Financial Statements

September 30, 2003 and 2002

September 30, 2003 and 2002, if any, awaiting deposit to the U.S. Treasury are not included in the financial statements.

Receipts also include payments from the Federal Government for judgment awards and the settlement of claims.

(e) Disbursements

Payments disbursed from the Trust Funds consist of accumulations of funds from various income-producing activities such as leasing, royalty receipts, mineral extraction, timber and forest product sales, judgment awards, settlement of claims, and investment income. Under certain conditions, tribes disburse per capita payments to their enrolled members.

Public Law 103-412 specifically allows for the voluntary withdrawal of judgment awards and settlement of claims funds from the Trust Funds. Except where prohibited by statute, an Indian tribe may submit a plan to withdraw some or all funds held in trust for the tribe in accordance with 25 CFR 1200.

(f) Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets at the date of the financial statements and the reported amounts of increases and decreases in trust fund balances during the reporting period. Actual results could differ from those estimates.

(g) Reclassifications

Certain 2002 amounts have been reclassified to conform with 2003 presentation.

(3) Cash and Cash Equivalents

Cash equivalents of approximately \$504 million and \$723 million at September 30, 2003 and 2002, respectively, consist primarily of overnight investments with the U.S. Treasury.

As of September 30, 2002, the cash balances reported for the Tribal and Other Trust Funds and the Individual Indian Monies (IIM) Trust Funds exceeded the balances reported by the U.S. Treasury by approximately \$33 million. During fiscal year 2003, this historical difference was eliminated as the U.S. Treasury processed adjustments to their reported balances, as requested by OST, to amounts that reflect the trust asset balances maintained by OST.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS**

Notes to Financial Statements

September 30, 2003 and 2002

(4) Investments

The historical cost, gross unrealized holding gains, gross unrealized holding losses and fair value of investment securities by major class of security at September 30, 2003 and 2002 were as follows:

	<u>Historical cost</u>	<u>Gross unrealized holding gains</u>	<u>Gross unrealized holding losses</u>	<u>Fair value</u>
	(in thousands)			
At September 30, 2003:				
U.S. Treasury and agency securities	\$ 2,322,737	128,069	(6,639)	2,444,167
Mortgage-backed securities	49,697	2,897	(987)	51,607
	<u>\$ 2,372,434</u>	<u>130,966</u>	<u>(7,626)</u>	<u>2,495,774</u>
At September 30, 2002:				
U.S. Treasury and agency securities	\$ 2,065,975	134,386	(439)	2,199,922
Mortgage-backed securities	66,612	5,256	—	71,868
	<u>\$ 2,132,587</u>	<u>139,642</u>	<u>(439)</u>	<u>2,271,790</u>

Maturities of investment securities were as follows at September 30, 2003:

	<u>Historical cost</u>	<u>Fair value</u>
	(in thousands)	
Due in one year or less	\$ 209,966	211,873
Due after one year through five years	896,869	930,486
Due after five years through ten years	553,143	561,676
Due after ten years	712,456	791,739
	<u>\$ 2,372,434</u>	<u>2,495,774</u>

(5) Commitments and Contingencies

Several Indian tribes have filed various claims against the Federal Government for failure to fulfill its fiduciary responsibilities and for other related charges. In addition, a class-action lawsuit brought by a group of individual Indians was filed against the Federal Government alleging breach of trust with respect to the Federal Government's handling of IIM trust fund accounts and various other claims. Neither OST nor the Office of the Solicitor for the Department can presently determine the outcome of these actions nor the total amount, responsibility, and funding source of the potential liability. Any settlement resulting from an adverse outcome of the contingencies described above is generally not expected to be satisfied with trust fund balances. Accordingly, no amounts have been accrued in the accompanying Trust Funds' financial statements for potential claims receivable from the Federal Government.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS**

Notes to Financial Statements

September 30, 2003 and 2002

(6) Trust Fund Balances

Trust fund balances are the aggregation of monetary assets held in trust and represent the amounts owed to beneficiaries as of September 30, 2003 and 2002 for which OST has a fiduciary responsibility.

The Trust Funds contain the following Trust Fund balance categories for Federal Government budget purposes, which are reflected as separate components in the accompanying financial statements:

- *Held for Indian tribes* – These represent funds held on behalf of Indian tribes. These funds are considered non-Federal monies.
- *Held by the Department of the Interior and considered to be U.S. Government funds* – These represent funds, some of which will be transferred to the *Held for Indian tribes* category provided certain conditions are satisfied, and for others the corpus of the fund may be nonexpendable. These funds are considered Federal Government monies.

A portion of trust fund balances represents estimated payments on production-type leases for which certain tribes and individual Indians hold an interest (see note 7). When any adjustments to production are identified, estimated payments in excess of production are returned to the depositor.

Included in the Trust Funds are certain balances which are presently not identified to specific Indian tribes because judgment awards were granted to several Indian tribes in a particular geographic area for settlement of claims related to certain lands.

(7) Related-Party Transactions With Other Federal Government Organizations

(a) *U.S. Department of the Interior Bureau of Indian Affairs*

BIA is responsible for the collection of certain monies resulting from the management and use of Indian trust lands and other trust resources. In processing collections for deposit, certified Collection Officers must obtain trust accounting information from BIA program staff. Upon deposit of the trust funds, deposit and related trust accounting information is forwarded either manually or via electronic transfer to OST. Upon receipt, OST records the deposit of trust funds to trust accounts based on the information received from BIA.

(b) *U.S. Department of the Interior Minerals Management Service*

For certain trust leases, MMS is responsible for the collection of royalty payments on behalf of Indian tribes and individual Indians holding mineral rights. MMS deposits the royalty payments with the U.S. Treasury and electronically transfers to OST the related accounting information, generally the next business day.

The accounting information received from MMS provides OST an allocation of 100% tribally-owned lease royalties, enabling OST to record trust deposits directly into tribal accounts. For tribally/individually co-owned leases, and individually owned leases, allocation and accounting data is forwarded to OST via electronic interface through the Royalty Distribution Reporting System that is maintained by BIA. Pursuant to established procedure and appropriate authorization, the data is

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS**

Notes to Financial Statements

September 30, 2003 and 2002

recorded by OST. MMS and BLM both perform verification and other monitoring procedures of mineral assets. Oil and gas companies sometimes forward payments to MMS based on estimated mineral production in order to comply with the Federal Oil and Gas Royalty Management Act of 1982 that requires timely distribution of royalties. These estimated payments may be disbursed by OST to the beneficiaries. Typically, the oil and gas companies adjust future payments for excess or shortfall amounts, if any, based on actual production.

(c) Other

The U.S. Treasury holds cash and certain investments and disburses for OST.

The Department's Office of the Solicitor serves as legal counsel for OST.

(8) Transfers of Trust Funds

OST, pursuant to information provided by BIA, utilizes special deposit accounts maintained within the IIM Trust Funds for both tribal and IIM beneficiaries as suspense accounts whereby funds are temporarily posted when allocation information is not provided when the funds are received. Following receipt of allocation information from BIA, the funds are transferred from the special deposit accounts to the designated tribal and/or IIM account(s). In addition, certain per capita disbursements authorized by tribes result in transfers from the Tribal and Other Trust Funds to the IIM Trust Funds while certain oil and gas distributions may result in transfers from the IIM Trust Funds to the Tribal and Other Trust Funds. Net transfers of trust funds from the Tribal and Other Trust Funds to the IIM Trust Funds totaled approximately \$11.4 million and \$16.3 million during the years ended September 30, 2003 and 2002, respectively. These transfers are reflected as disbursements in the accompanying statements of changes in trust fund balances.



**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

Financial Statements

September 30, 2003 and 2002

(With Independent Auditors' Report Thereon)



6565 Americas Parkway NE, #700
Post Office Box 3990
Albuquerque, NM 87190

Independent Auditors' Report

The Special Trustee for American Indians
U.S. Department of the Interior Office of the Special Trustee for American Indians:

We have audited the accompanying statements of assets and trust fund balances of the Individual Indian Monies Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians (OST) and the related statements of changes in trust fund balances as of September 30, 2003 and 2002 and for the years then ended. These financial statements are the responsibility of management of OST. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the fourth paragraph of this report, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

It was not practicable to extend our auditing procedures sufficiently to satisfy ourselves as to the fairness of trust fund balances in the accompanying financial statements as of September 30, 2003 and 2002 due to inadequacies in certain Department of the Interior trust-related systems and processes. Trust fund balances enter into the determination of financial position and changes in trust fund balances. Certain parties for whom OST holds monetary assets in trust do not agree with balances recorded by OST, and certain of these parties have filed, or are expected to file, claims against the United States Federal Government.

In our opinion, except for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to apply adequate procedures to determine the fairness of trust fund balances and related changes in trust fund balances, as discussed in the preceding paragraph, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Individual Indian Monies Trust Funds managed by OST as of September 30, 2003 and 2002 and the changes in trust fund balances for the years then ended in conformity with the basis of accounting described in note 2.



In accordance with *Government Auditing Standards*, we have also issued a separate report dated November 14, 2003, on our consideration of internal control over financial reporting and compliance with certain provisions of laws and regulations of the Individual Indian Monies Trust Funds managed by OST. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

KPMG LLP

November 14, 2003

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

Statements of Assets and Trust Fund Balances – Modified Cash Basis

September 30, 2003 and 2002

(in thousands)

Assets	2003	2002
Cash and cash equivalents (note 3)	\$ 26,488	44,018
Investments (note 4)	382,325	362,796
Accrued interest receivable	4,255	4,531
Total assets	\$ 413,068	411,345
Trust Fund Balances		
Held for individual Indians (notes 6 and 8)	\$ 413,068	411,345

See accompanying notes to financial statements.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

Statements of Changes in Trust Fund Balances – Modified Cash Basis

Years ended September 30, 2003 and 2002

(in thousands)

	2003	2002
Increases:		
Receipts (note 8)	\$ 170,996	168,248
Interest earned on invested funds	22,817	23,022
Gain on disposition of investments, net	436	83
	194,249	191,353
Decreases:		
Disbursements to and on behalf of account holders	(192,526)	(184,148)
Increase in trust fund balances, net	1,723	7,205
Trust fund balances, beginning of year	411,345	404,140
Trust fund balances, end of year (notes 6 and 8)	\$ 413,068	411,345

See accompanying notes to financial statements.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

Notes to Financial Statements

September 30, 2003 and 2002

(1) Background and Description of the Trust Funds

(a) Overview of the Trust Funds

Establishment and Management of the Trust Funds – The legislation, which authorizes the Secretary of the United States Department of the Interior (Secretary) to manage the Individual Indian Monies Trust Funds (IIM Trust Funds), recognizes the unique trust relationship that exists between the Indian tribes, individual Indians, and the United States Federal Government (Federal Government). Agreements between the Federal Government and the various Indian tribes, many of these in the form of treaties, recognize the sovereignty of tribes. During the course of the Nation's history and the Federal Government's evolving policies toward individual Indians and Indian tribes, the trust relationship has retained characteristics based upon tribal sovereignty. The United States Congress has designated the Secretary as the primary fiduciary with responsibility for the monetary and nonmonetary resources held in trust on behalf of American Indian tribes, individual Indians, and other trust funds. In carrying out the management and oversight of the Indian trust assets, the Secretary has a fiduciary responsibility to ensure all monies are received for the use of Indian lands and the extraction of natural resources from Indian lands, disburse such monies collected to the appropriate beneficiaries, ensure that trust accounts are properly maintained and invested, and ensure that accurate and complete reports are provided to the trust beneficiaries in accordance with applicable law.

The balances that have accumulated in the IIM Trust Funds have resulted generally from settlement of claims, land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, receipt of judgment and tribal per capita distributions, and investment income.

The accompanying financial statements include only the monetary balances held in trust by the Office of the Special Trustee for American Indians (OST) for trust beneficiaries and do not include (i) the operating account balances of OST (e.g., Fund Balance with Treasury, Property, Plant, and Equipment) or (ii) other Indian trust assets, including but not limited to, Indian lands, buildings, or other nonmonetary assets managed by the United States Department of the Interior (Department).

The Reform Act – The American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412) (the Reform Act) authorized the establishment of OST which is headed by the Special Trustee for American Indians (Special Trustee) who reports to the Secretary. Under this legislation, the Special Trustee is responsible for oversight, reform, and coordination of the policies, procedures, systems, and practices used by various agencies of the Department, including but not limited to, OST, the Bureau of Indian Affairs (BIA), the Minerals Management Service (MMS), and the Bureau of Land Management (BLM), in managing Indian trust assets.

Prior to February 1996, the Secretary delegated authority for the management of the Trust Funds, including accounting and financial reporting, to the Office of the Assistant Secretary – Indian Affairs, who carried out the management of the Trust Funds through BIA. On February 9, 1996, in accordance with the authority provided by the Reform Act, Secretarial Order 3197, the provisions of which were subsequently incorporated into the Departmental Manual, established OST and delegated all program and administrative authority necessary to carry out the responsibilities of OST to the

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

Notes to Financial Statements

September 30, 2003 and 2002

Special Trustee. In addition, the Office of Trust Funds Management (OTFM) was transferred intact from BIA to OST, and certain trust service employees in field offices located throughout the United States (U.S.) were transferred from BIA to OST and OTFM.

2003 Reorganization – A reorganization of the Office of the Assistant Secretary – Indian Affairs, BIA, and OST, became effective on April 21, 2003. Among the changes of the reorganization, responsibilities and authorities were updated, new positions were created, and new organizational charts for the Office of the Assistant Secretary – Indian Affairs, BIA, and OST were created. The 2003 reorganization impacted the organizational structure of OTFM whereas certain divisions and positions previously under OTFM were transferred into other program functions within OST. The transfer to OST included such functions as policies and procedures, reporting and reconciliation, information technology systems, and field operations.

Office of the Special Trustee for American Indians – Indian trust assets, including the Trust Funds, are primarily managed under the delegated authority of OST and BIA. Management of Indian trust assets on behalf of the trust beneficiaries is a process that is dependent upon the processing of trust-related transactions within the accounting systems of the Department, including but not limited to, BIA, MMS, and certain other Departmental agencies. BIA, MMS, and other Departmental agencies are responsible for managing the natural resources located within the boundaries of Indian reservations and trust lands as well as the processing of data regarding the ownership and leasing of Indian lands. The allocation and distribution of receipts and disbursements by OST to trust beneficiaries is significantly dependent and reliant upon the receipt of timely and accurate information derived from records maintained by BIA, MMS, and other Departmental agencies (see note 7).

Regional Offices – OST and BIA maintain regional offices located throughout the U.S. which provide operational support for their respective agency and field offices.

Agency and Field Offices – OST and BIA maintain agency and field offices located throughout the U.S., which are generally located near the tribes and individual Indians served. OST and BIA personnel located at most of the agency offices perform various functions related to trust fund activities. Each of the agency and field offices are organized under one of the regional offices.

(b) Description of the Trust Funds

Certain of the IIM Trust Funds described below are subject to legal, regulatory, budgetary, court-ordered, or other restrictions. Approximately 260,000 and 252,000 open accounts, held primarily for the benefit of individual Indian account holder beneficiaries and tribal entities, comprise the IIM Trust Funds as of September 30, 2003 and 2002, respectively. The IIM Trust Funds contain certain special deposit accounts for certain tribal and other entities.

The IIM Trust Funds are primarily funds on deposit for individual Indians with a beneficial interest in those funds. IIM account holders realize receipts primarily from settlement of claims, land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, judgment and tribal per capita distributions, and investment income.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

Notes to Financial Statements
September 30, 2003 and 2002

(c) *Investment of Trust Funds*

Authorizing legislation and a substantial body of case law specify how Indian trust funds should be managed and which financial instruments constitute appropriate investments for Indian trust funds. The IIM Trust Funds are pooled and invested in Federal Government securities, including U.S. Department of the Treasury (U.S. Treasury) issues, Federal Government agency issues, and Federal Government-sponsored entity issues.

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

OST uses the cash basis of accounting with certain modifications for the IIM Trust Funds, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received with the exception of interest earned on invested funds (including discount accretion and premium amortization), and disbursements are recorded when paid. Investments are stated at amortized cost. Accrual adjustments to reflect interest earned but not received, and to record any applicable accretion of discounts and amortization of premiums over the terms of the investments have been recorded in the accompanying financial statements. Interest income reported in the statements of changes in trust fund balances reflects interest earned, net of any premium amortization or discount accretion recognized during the fiscal year.

(b) *Cash and Cash Equivalents*

Management considers all highly liquid financial instruments with maturities of three months or less when purchased to be cash equivalents.

(c) *Investments*

Investment securities at September 30, 2003 and 2002 consist of U.S. Treasury issues, Federal Government agency issues, and Federal Government-sponsored entity issues. IIM Trust Funds are pooled and invested. Investment securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method. Interest income is recognized when earned.

The IIM Trust Funds' investments have a concentration of credit risk in Federal Government securities as mandated by 25 USC 162.

(d) *Receipts*

Receipts from various leasing activities, mineral royalties and sales of extracted minerals, timber and forest products, fees and fines, and the granting of easements are generated from a variety of nonmonetary assets that are held in trust by the Federal Government and managed by BIA and other Departmental agencies on behalf of individual Indians. Receipts on hand at the regional and agency offices at September 30, 2003 and 2002, if any, awaiting deposit to the U.S. Treasury are not included in the financial statements.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

Notes to Financial Statements

September 30, 2003 and 2002

Receipts also include payments from the Federal Government for judgment awards and the settlement of claims.

(e) Disbursements

Payments disbursed from the IIM Trust Funds consist of accumulations of funds from various income-producing activities such as leasing, royalty receipts, mineral extraction, timber and forest product sales, judgment awards, tribal per capita distributions, and investment income.

(f) Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets at the date of the financial statements and the reported amounts of increases and decreases in trust fund balances during the reporting period. Actual results could differ from those estimates.

(3) Cash and Cash Equivalents

Cash equivalents of approximately \$25 million and \$43 million at September 30, 2003 and 2002, respectively, consist primarily of overnight investments with the U.S. Treasury.

As of September 30, 2002, the cash balances reported for the Tribal and Other Trust Funds and the IIM Trust Funds exceeded the balances reported by the U.S. Treasury by approximately \$33 million. During fiscal year 2003, this historical difference was eliminated as the U.S. Treasury processed adjustments to their reported balances, as requested by OST, to amounts that reflect the trust asset balances maintained by OST.

(4) Investments

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities by major class of security at September 30, 2003 and 2002 were as follows:

	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
	(in thousands)			
At September 30, 2003:				
U.S. Treasury and agency securities	\$ 382,325	26,178	(1,009)	407,494
At September 30, 2002:				
U.S. Treasury and agency securities	\$ 362,796	26,816	(4)	389,608

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

Notes to Financial Statements

September 30, 2003 and 2002

Maturities of investment securities were as follows at September 30, 2003:

	<u>Amortized cost</u>	<u>Fair value</u>
	(in thousands)	
Due in one year or less	\$ 14,982	15,734
Due after one year through five years	73,146	78,364
Due after five years through ten years	88,996	93,055
Due after ten years	205,201	220,341
	\$ 382,325	407,494

(5) Commitments and Contingencies

A class-action lawsuit brought by a group of individual Indians was filed against the Federal Government alleging breach of trust with respect to the Federal Government's handling of IIM trust fund accounts and various other claims. Neither OST nor the Office of the Solicitor for the Department can presently determine the outcome of these actions nor the total amount, responsibility, and funding source of the potential liability. Any settlement resulting from an adverse outcome of the contingencies described above is generally not expected to be satisfied with trust fund balances. Accordingly, no amounts have been accrued in the accompanying IIM Trust Funds financial statements for potential claims receivable from the Federal Government.

(6) Trust Fund Balances

Trust fund balances are the aggregation of monetary assets held in trust and primarily represent the amounts owed to beneficiaries as of September 30, 2003 and 2002 for which OST has a fiduciary responsibility.

The net total of the balances reflected in the IIM account holders' subsidiary detail of accounts is less than the trust fund balances reported in the financial statements as of September 30, 2003 and 2002 due to certain cumulative differences.

As of September 30, 2003 and 2002, the aggregate sum of positive account balances in the IIM subsidiary detail of account holders' balances exceeds the trust fund balances reported in the financial statements by approximately \$6.0 million. As of September 30, 2003 and 2002, there are certain accounts with negative balances in the IIM account holders' subsidiary detail aggregating approximately \$44 million (of which approximately \$233,000 and \$242,000 is attributed to individual Indian accounts as of September 30, 2003 and 2002, respectively).

The subsidiary detail of IIM account balances contains approximately 20,000 and 21,000 special deposit accounts with balances totaling approximately \$59 million and \$62 million as of September 30, 2003 and 2002, respectively. A portion of the special deposit account monies held in the IIM Trust Funds has not been distributed because the ultimate disposition of the funds has not been determined.

The subsidiary detail of IIM account balances contains certain oil and gas holding accounts with balances totaling approximately \$6.1 million and \$7.0 million as of September 30, 2003 and 2002, respectively,

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

Notes to Financial Statements

September 30, 2003 and 2002

which have not been distributed to beneficiaries. Upon receipt of the allocation and accounting data, provided by MMS and BIA, the monies will be distributed to IIM account holders' accounts (see note 7).

A portion of trust fund balances represents estimated payments on production-type leases for which certain individual Indians and tribes hold an interest (see note 7). When any adjustments to production are identified, estimated payments in excess of production are returned to the depositor.

(7) Related-Party Transactions With Other Federal Government Organizations

(a) *U.S. Department of the Interior Bureau of Indian Affairs*

BIA is responsible for the collection of certain monies resulting from the management and use of Indian trust lands and other trust resources. In processing collections for deposit, certified Collection Officers must obtain trust accounting information from BIA program staff. Upon deposit of the trust funds, deposit and related trust accounting information is forwarded either manually or via electronic transfer to OST. Upon receipt, OST records the deposit of trust funds to trust accounts based on the information received from BIA.

(b) *U.S. Department of the Interior Minerals Management Service*

For certain trust leases, MMS is responsible for the collection of royalty payments on behalf of Indian tribes and individual Indians holding mineral rights. MMS deposits the royalty payments with the U.S. Treasury and electronically transfers to OST the related accounting information, generally the next business day. For tribally/individually co-owned leases, and individually owned leases, the allocation and accounting data to distribute the monies to the proper IIM account is forwarded to OST via electronic interface through the Royalty Distribution Reporting System that is maintained by BIA. Pursuant to established procedure and appropriate authorization, the data is recorded by OST. MMS and BLM both perform verification and other monitoring procedures of mineral assets. Oil and gas companies sometimes forward payments to MMS based on estimated mineral production in order to comply with the Federal Oil and Gas Royalty Management Act of 1982 that requires timely distribution of royalties. These estimated payments may be disbursed by OST to the beneficiaries. Typically, the oil and gas companies adjust future payments for excess or shortfall amounts, if any, based on actual production.

(c) *Other*

During the year ended September 30, 2002, certain trust deposits and distributions could not be processed by MMS and BIA on behalf of account holders due to a temporary restraining order prohibiting internet access by certain Departmental offices. To alleviate the negative financial impact to account holders, OST received authorization and made certain estimated payments totaling approximately \$3.6 million. Substantially all of these estimated payments were recouped through offsets to 2002 and 2003 royalty distributions. During the year ended September 30, 2003, all remaining amounts not recouped were funded through appropriated funds.

The U.S. Treasury holds cash and certain investments and disburses for OST.

The Department's Office of the Solicitor serves as legal counsel for OST.

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

Notes to Financial Statements

September 30, 2003 and 2002

(8) Transfers of Trust Funds

OST, pursuant to information provided by BIA, utilizes special deposit accounts maintained within the IIM Trust Funds for both tribal and IIM beneficiaries as suspense accounts whereby funds are temporarily posted when allocation information is not provided when the funds are received. Following receipt of allocation information from BIA, the funds are transferred from the special deposit accounts to the designated tribal and/or IIM account(s). In addition, certain per capita disbursements authorized by tribes result in transfers from the Tribal and Other Trust Funds to the IIM Trust Funds while certain oil and gas distributions may result in transfers from the IIM Trust Funds to the Tribal and Other Trust Funds. Net transfers of trust funds to the IIM Trust Funds from the Tribal and Other Trust Funds totaled approximately \$11.4 million and \$16.3 million during the years ended September 30, 2003 and 2002, respectively. These transfers are reflected as receipts in the accompanying statements of changes in trust fund balances.



**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS AND
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

Auditors' Report on Internal Controls Over
Financial Reporting and Compliance With
Laws and Regulations

September 30, 2003



6565 Americas Parkway NE, #700
Post Office Box 3990
Albuquerque, NM 87190

Independent Auditors' Report

The Special Trustee for American Indians
U.S. Department of the Interior Office of the Special Trustee for American Indians:

We have audited the statements of assets and trust fund balances of the Tribal and Other Trust Funds as of September 30, 2003 and 2002, and the related statements of changes in trust fund balances for the years then ended, and the statements of assets and trust fund balances of the Individual Indian Monies Trust Funds as of September 30, 2003 and 2002, and the related statements of changes in trust fund balances for the years then ended (collectively referred to as the Trust Fund Financial Statements) managed by the United States Department of the Interior Office of the Special Trustee for American Indians (OST) and have issued our reports thereon dated November 14, 2003.

Our reports were qualified because it was not practicable to extend our auditing procedures sufficiently to satisfy ourselves as to the fairness of trust fund balances in the Trust Fund Financial Statements as of September 30, 2003 and 2002. Trust fund balances enter into the determination of financial position and changes in trust fund balances, and inadequacies in certain Department of the Interior trust-related systems and processes raise questions about the fairness of trust fund balances. Also, certain parties for whom OST holds monetary assets in trust do not agree with the balances recorded by OST, and certain of these parties have filed, or are expected to file, claims against the United States Federal Government.

Our reports also state that the Trust Fund Financial Statements are prepared in accordance with a basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as described in notes 2 to the financial statements. The objective of our audits was to express opinions on the fair presentation of the Trust Fund Financial Statements. In connection with our audits, we also considered OST's internal control over financial reporting and tested OST's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on the Trust Fund Financial Statements.

Summary

Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

- A. Reliance on processing of trust transactions at the Bureau of Indian Affairs
- B. Financial reporting – unresolved matters from prior periods
- C. Improve controls over information technology systems

We consider reportable conditions A. and B. above to be material weaknesses.



The results of our tests of compliance with the laws and regulations described in the Responsibilities section of this report disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards*.

The following sections discuss our consideration of OST's internal control over financial reporting, the results of our tests of OST's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

Internal Control Over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention that, in our judgment, relate to significant deficiencies in the design or operation of internal control over financial reporting and could adversely affect OST's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements, due to error or fraud, may nevertheless occur and not be detected.

Overview – Trust Fund Financial Statements

The accounting systems and internal control procedures used in the processing of Indian trust transactions have suffered historically from a variety of system and procedural internal control weaknesses. In addition, current management is burdened with the ongoing impact of decades of accumulated discrepancies in the accounting records.

The United States Congress has designated the Secretary of the Department of the Interior (the Secretary) as the primary fiduciary with responsibility for the monetary and nonmonetary resources held in trust on behalf of American Indian tribes, individual Indians, and other trust funds. In carrying out the management and oversight of the Indian trust assets, the Secretary has a fiduciary responsibility to ensure all monies are received for the use of Indian lands and the extraction of natural resources from Indian lands, disburse such monies collected to the appropriate beneficiaries, ensure that trust accounts are properly maintained and invested, and ensure that accurate and complete reports are provided to the trust beneficiaries in accordance with applicable law.

Prior to February 1996, the Secretary delegated authority for the management of trust funds, including accounting and financial reporting, to the Assistant Secretary – Indian Affairs, who carried out the management of the trust funds through the Bureau of Indian Affairs (BIA).

On February 9, 1996, in accordance with the authority provided by The American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412) (the Reform Act), Secretarial Order 3197, the provisions of which were subsequently incorporated into the Departmental Manual, established OST and delegated all program and administrative authority necessary to carry out the responsibilities of OST to the Special Trustee for American Indians (Special Trustee) who reports to the Secretary. In addition, the Office of Trust Funds Management (OTFM) was transferred intact from BIA to OST, and certain trust service employees in field offices located throughout the United States (U.S.) were transferred from BIA to OST and OTFM.

In January 2002, the Secretary launched an effort to develop a comprehensive approach for improving Indian trust management. In May 2002, this effort was expanded, and a Department of the Interior (Department)-wide strategic planning team was created including representatives from national and regional offices of OST, BIA, the Minerals Management Service (MMS), and the Bureau of Land Management (BLM). These planning efforts resulted in the March 28, 2003 issuance of the Department's *Comprehensive Trust Management Plan (CTM)*. The CTM is the comprehensive operational plan for the Department's trust operations. The CTM defines and describes the vision, goals, and objectives of trust reform, and an improved management of the trust program.

The CTM was developed around six major goals, as follows:

1. Beneficiary Services
2. Ownership Information
3. Land and Natural Resource Assets
4. Trust Fund Assets
5. Indian Self-Governance and Self-Determination
6. Administrative Services

The objectives of the CTM are to be accomplished through the development and implementation of standardized trust business processes. A three-stage approach to standardizing these processes will: (i) identify existing business process (As-Is), (ii) determine which of those processes should remain or be reengineered (To-Be), and (iii) develop the universal support functions cross-cutting the baseline business model. The As-Is Trust Business Model was issued March 21, 2003 and provides the basis for current re-engineering efforts.

A reorganization of the Office of the Assistant Secretary – Indian Affairs, BIA, and OST became effective on April 21, 2003. Among the changes of the reorganization, responsibilities and authorities were updated, new positions were created, and new organizational charts for the Office of the Assistant Secretary – Indian Affairs, BIA, and OST were created. The 2003 reorganization impacted the organizational structure of OTFM whereas certain divisions and positions previously under OTFM were transferred into other program functions within OST. The transfer to OST included such functions as policies and procedures, reporting and reconciliation, information technology systems, and field operations.

We noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the following reportable conditions are material weaknesses:

A. Reliance on Processing of Trust Transactions at the Bureau of Indian Affairs

Condition

Indian trust assets, including the trust funds, are primarily managed under the delegated authority of OST and BIA. Management of Indian trust assets on behalf of the trust beneficiaries is a process that is dependent upon the processing of trust related transactions within the accounting systems of the Department, including but not limited to, OST, BIA, MMS, and certain other Departmental agencies. BIA, MMS, and other Departmental agencies are responsible for managing the natural resources located within the boundaries of Indian reservations and trust lands as well as the processing of data

regarding the ownership and leasing of Indian lands. The allocation and distribution of receipts and disbursements by OST to trust beneficiaries is significantly dependent and reliant upon the receipt of timely and accurate information derived from the records of the ownership and leasing of Indian land maintained by BIA and other Departmental agencies.

The independent auditors' report on internal control over financial reporting for the years ended September 30, 2003 and 2002 at BIA contained two reportable conditions which were considered material weaknesses. Specifically, material weaknesses related to controls over information technology systems and controls over processing of Indian trust transactions were included in BIA's report. The presence of these reportable conditions directly impacts OST's ability to process monetary trust transactions on behalf of trust beneficiaries and to provide accurate information to account holders due to the interrelationship between BIA and OST.

The first material weakness relates to controls over information technology systems at BIA. Specifically, weaknesses in BIA's computer systems raise concerns about the integrity of information being reported on in the Trust Fund Financial Statements. Although BIA has taken steps throughout fiscal year 2003 to address and resolve these weaknesses, BIA has not fully implemented its corrective action plan, and several of these weaknesses continue to impact the general and application information technology (IT) controls. Specifically, weaknesses in the following IT control areas were noted: 1) Information security and logical access controls, 2) Segregation of duties, 3) Personnel security program, 4) Application software development and change controls, and 5) Service continuity.

The second material weakness relates to controls over the processing of Indian trust transactions. BIA performs a critical role in the initial input and subsequent changes to Indian trust accounting data in its various regional and agency offices. In this fiduciary capacity, BIA performs a variety of functions related to Indian trust transactions. Weaknesses in the following areas were noted: 1) Probate backlog, 2) Segregation of duties, and 3) Untimely deposits.

Recommendation

We recommend management continue to work collaboratively with other Departmental bureaus and offices to correct the weaknesses identified above such that OST may fulfill its fiduciary responsibility to the trust fund beneficiaries.

Management's Response

OST concurs, recognizes and acknowledges that, as reported, its ability to process (i.e., account for) trust funds receipts and disbursements for trust beneficiaries is significantly dependent and critically reliant upon the financial information derived from trust records that are maintained and provided by BIA and other Departmental offices. OST also shares in concerns regarding the integrity of the trust data it receives from BIA and understands the reportable conditions reported as material weaknesses in (BIA's) independent auditors' report on internal controls. OST remains committed to work collaboratively with all Departmental offices towards trust management reform.

B. Financial Reporting – Unresolved Matters From Prior Periods

Condition

As of September 30, 2003, several significant financial reporting differences have not been resolved. The presence of these unresolved differences has a material effect on the financial statements of the

Trust Funds as of September 30, 2003 and 2002 and for the years then ended. These matters include the following:

Investments – Lack of Reliable IIM Balance Available for Investing – IIM

The Trust Funds Accounting System (TFAS) control account for IIM account holders is purported to represent the aggregate net balance of trust funds held on behalf of IIM account holders as reflected in the detailed subsidiary accounts also in TFAS. The balance per the control account does not agree to the sum of the balances per the IIM subsidiary accounts, and it cannot be determined which balance, if either, is correct. Consequently, the balance of funds invested for IIM account holders may not be correct. The amount invested for IIM is based on the IIM control account balance in TFAS. As of September 30, 2003 and 2002, the aggregate sum of all positive balances included in the detailed subsidiary ledger of IIM accounts exceeded the control account by approximately \$6,000,000. Accordingly, IIM account holders with positive balances may be penalized by lower interest earnings. In addition, as of September 30, 2003 and 2002, the IIM detailed subsidiary ledger accounts contain negative account balances totaling approximately \$44,000,000 (of which approximately \$233,000 and \$242,000 is attributed to individual Indian accounts as of September 30, 2003 and 2002, respectively).

Trust Fund Balances – Tribal and IIM

A historical “Undistributed Interest Account” of approximately \$1,800,000 existed at September 30, 1995. The balance as of September 30, 2003 is approximately \$1,738,000. Currently, the proper recipients of these funds have not been determined.

Cash – Tribal

As of September 30, 2003, there were twelve accounts in TFAS with negative balances totaling approximately \$724,000 carried forward from the previous trust funds accounting system prior to the conversion to TFAS.

Special Deposit Accounts – Inconsistent Practices – IIM

As of September 30, 2003 and 2002, there were approximately 20,000 and 21,000 special deposit accounts, respectively, reflected in the detailed subsidiary ledger accounts (IIM accounts) in TFAS with a balance totaling approximately \$59 million and \$62 million, respectively. In accordance with Title 25 of the Code of Federal Regulations, and as directed by BIA, OST records receipts into a special deposit account within the IIM subsidiary ledger when the recipient trust fund account is unknown at the time of receipt. When BIA identifies the trust fund account(s), OST transfers the amount from the special deposit account(s) to the designated trust fund account(s) in accordance with BIA instructions. A significant number of special deposit accounts have remained inactive for the past several years, and new accounts continued to be established during the years ended September 30, 2003 and 2002. During fiscal years 2002 and 2001, management of OST, together with BIA and a contractor, developed and put in place a formal plan to address special deposit accounts. Beginning in fiscal year 2003, the Office of Historical Trust Accounting began working with OST and BIA to distribute funds in special deposit accounts that were opened on or before December 31, 2002. Special deposit account activity after that date will be addressed by BIA, with instructions for distributions being provided to OST. At September 30, 2003, a significant number of special deposit accounts continue to require resolution, and management anticipates that these accounts will be reconciled by the beginning of fiscal year 2007.

Trust Fund Balances – IIM

During fiscal year 2002, approximately \$922,000 was transferred from certain special deposit accounts to an “undistributed interest” house account in connection with the review of certain special deposit accounts performed by OST, together with BIA and a contractor. At September 30, 2003, approximately \$922,000 remains in the house account as the proper recipients of the funds have not been determined. The funds are currently being invested with interest earnings allocated to current IIM account holders.

Automated Disbursements – IIM

Automated disbursements can be generated from TFAS through the establishment of various “disbursement ticklers” in the system. A significant number of current year disbursements were made through this automated disbursement process. OST was unable to provide documentation supporting the authorization of certain fiscal year 2003 automated disbursements. Also, authorizing documentation for certain accounts could not be located even when such documentation was noted as being on file per the Missing Mandatory Documents list.

Recommendation

We recommend that management of OST continue to work to resolve these matters as soon as practicable. In situations where actions or inputs from Department officials are needed to resolve a matter, we recommend management of OST continue to work with appropriate Department officials such that all matters are resolved as soon as practical.

Management’s Response

Management concurs, and during fiscal year 2004 plans to:

1. Secure funding to address the finding related to the IIM imbalance, and
2. Begin implementation of a plan to resolve the issues identified in what is commonly referred to as the “Accounting Discrepancy Binder”. The historical “Undistributed Interest Account”, the tribal accounts with negative balances, and the “Siletz Interest Account” are included in this binder.

The balances in the Special Deposit Accounts are planned to be resolved through the following combination effort:

1. The Office of Historical Trust Accounting must resolve the balances from December 31, 2002 and prior, and
2. OST, working with BIA, has developed a database and reports to assist BIA in measuring compliance with the BIA Special Deposit Accounts Policy, and
3. “To Be” and “Model Agency” efforts geared towards significantly limiting the need for Special Deposit Accounts.

We noted the following reportable condition that is not considered to be a material weakness:

C. Improve Controls Over Information Technology Systems

Condition

Sufficient internal control over IT systems and applications is necessary to ensure OST fulfills its fiduciary responsibility to trust beneficiaries and accomplishes its mission. During our audits, we noted certain matters related to internal control over IT that could be improved as indicated below.

Segregation of Duties – DADS Application

Segregation of duties between the programming, maintenance, and production environments of applications is necessary to maintain proper controls over the potential for unauthorized changes to production code as well as the processing of unauthorized transactions. Management recently developed and implemented procedures whereby the DADS application programmer no longer enters and processes per capita disbursement transactions via the application. However, those procedures were not implemented until July 2003. For the majority of the year, the individual who developed and maintained the DADS application also processed certain per capita disbursement transactions via the application.

Accreditations

As of September 30, 2003, management had not Certified and Accredited (C&A) its general support systems and all major applications used to process, store, or transmit sensitive information as required by OMB Circular A-130. The Department issued draft guidance in March 2003, which outlined new C&A requirements consistent with the National Institute of Standards and Technology (NIST) and established a timetable including significant milestone dates. OST has implemented the C&A process by obtaining a preliminary risk assessment and implementing a system security plan, as well as developing a plan of action with milestones, and is currently in compliance with the Department's timetable. However, by not completing the processes of identifying the risks of these systems, testing these systems, and ultimately authorizing these systems and applications to process information, any risks associated with system and application security may not be adequately mitigated.

Access Controls

During fiscal year 2003, we identified a control weakness related to user account profiles within the Customer StrataStation application. Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment.

Recommendation

We recommend that OST management:

- Ensure the continued adherence to policies and procedures to ensure the proper segregation of duties between the processing of transactions via the DADS application and the development and maintenance of the DADS application.
- Complete the process of certifying and accrediting the general support systems and all major applications used to process, store, or transmit sensitive information as required by OMB Circular A-130.

- Correct the user account profile weakness within the Customer StrataStation application and monitor user account profiles within this system such that any inappropriate access is identified and corrected.

Management's Response

Management concurs, and during fiscal year 2004 plans:

1. To continue to comply with applicable policies and procedures to ensure proper segregation of duties between the processing of transactions via the DADS application and the development and maintenance of the DADS application.
2. To continue its progress in accordance with Departmental timeframes towards full Certification and Accreditation for both the General Support System and the one Major Application under the control of OST.
3. To establish and comply with policy and procedures for the periodic review of security profiles for all users.

A summary of the status of prior-year reportable conditions is included as Exhibit I. We also noted other matters involving internal control over financial reporting and its operation that we have reported to OST management in a separate letter dated November 14, 2003.

Compliance With Laws and Regulations

The results of our tests of compliance with the laws and regulations described in the Responsibilities section of this report disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We also noted other matters involving compliance with laws and regulations that, under *Government Auditing Standards*, were not required to be included in this report, that we have reported to OST management in a separate letter dated November 14, 2003.

Responsibilities

Management's Responsibility

The American Indian Trust Fund Management Reform Act of 1994 requires that the Secretary shall cause to be conducted an annual audit on a fiscal year basis of all funds held in trust by the U.S. for the benefit of an Indian tribe or an individual Indian which are deposited or invested pursuant to the Act of June 24, 1938 (25 U.S.C. 162a).

Management is responsible for:

- Preparing the financial statements in conformity with the basis of accounting described in notes 2 of the Trust Fund Financial Statements;
- Establishing and maintaining internal controls over financial reporting; and
- Complying with laws and regulations.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibility

Our responsibility is to express opinions on the Trust Fund Financial Statements managed by OST based on our audits. Except as discussed in the fourth paragraph of our auditors' reports, we conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the U.S. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinions.

In planning and performing our audits, we considered OST's internal control over financial reporting by obtaining an understanding of OST's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audits was not to provide assurance on internal controls over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Trust Funds' financial statements are free of material misstatement, we performed tests of OST's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to OST. Providing an opinion on compliance with laws and regulations was not an objective of our audits, and, accordingly, we do not express such an opinion.

Distribution

This report is intended for the information and use of the Department's management, the Department's Office of Inspector General, Office of Management and Budget, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

November 14, 2003

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER TRUST FUNDS AND
INDIVIDUAL INDIAN MONIES TRUST FUNDS**

Status of Reportable Conditions, Reported as of September 30, 2002

September 30, 2003

Ref	Condition	Current-Year Status
OTFM-2002-A	Reliance on Processing of Trust Transactions at the Bureau of Indian Affairs	Repeated, with certain modifications in current-year report – see reportable condition A, considered a material weakness.
OTFM-2002-B	Financial Reporting – Unresolved Matters from Current and Prior Periods	Repeated, with certain modifications in current-year report – see reportable condition B, considered a material weakness.
OTFM-2002-C	Improve Controls over Information Technology Systems	Repeated, with certain modifications in current-year report – see reportable condition C.

Status of Reportable Conditions, Reported as of September 30, 2001

September 30, 2003

Ref	Condition	Current-Year Status
OTFM-2001-A	Reliance on Processing of Trust Transactions at the Bureau of Indian Affairs	Repeated, with certain modifications in current-year report – see reportable condition A, considered a material weakness.
OTFM-2001-B	Financial Reporting – Unresolved Matters from Prior Periods	Incorporated in current-year report – see reportable condition B, considered a material weakness.
OTFM-2001-C	Improve Controls over Information Technology Systems	Repeated, with certain modifications in current-year report – see reportable condition C.